

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 SAM-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 AGR-20 TAR-02 PA-04 PRS-01

USIA-15 DRC-01 /187 W

----- 019933

R 122129Z FEB 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 6294

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L GUATEMALA 609

GUATEMALA FOR ROCAP

E.O. 11652: GDS

TAGS: EIND, EAGR, HO, US

SUBJECT: LUMBER DEVELOPMENTS

REF: TEGUCIGALPA 423

SUMMARY: ECOM OFFICER IN TRIP TO SAN PEDRO SULA SPOKE
WITH REPRESENTATIVES OF SEVERAL U.S. LUMBER COMPANIES.
THREE SPECIFIC PROBLEMS (TWO FINANCIAL, ONE LABOR)
DISTILLED FROM DISCUSSIONS AS NEEDING IMMEDIATE
ATTENTION STATE LUMBER COMPANY COHDEFOR. DIRECTOR
OF COHDEFOR REYES WILL BE ADVISED. END SUMMARY.

1. ECOM OFFICER DISCUSSED FEB 7 AND 8 COMPANY PROBLEMS
WITH MCLIN AND SWAN (NEW ORLEANS) OF MADERERA HIBUERAS
(ROBINSON), SEGUNDO COLLADA OF INDUSTRIA MADERA DEL NORTE
(DAVIS), AND OTHERS IN INDUSTRY AND FINANCE. MCLIN'S
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AND COLLADA'S MAJOR OPERATIONAL PROBLEMS WITH REFERENCE

TO DECREE 103 CURRENTLY HAVE TWO FINANCIAL AND ONE LABOR ASPECT.

2. FINANCIAL PROBLEM CREATED IN EXPORT COMPANY CASH FLOW BY FACT COHDEFOR PAYING COMPANY ONLY 80 PERCENT OF EXPORT RECEIPTS ON PINE LUMBER PENDING GOH ANALYSIS OF COSTS OF EXPORTS. (OTHER WOODS SUBJECT TO 30 PERCENT WITHHOLDING, FINISHED PRODUCTS, NONE.) FROM 5 PERCENT TO 8 PERCENT OF RECEIPTS ARE DUE GOH FOR VARIOUS TAXES, BUT BALANCE REPRESENTS DEDUCTION FROM OPERATING CAPITAL OF COMPANY. THIRD PARTY INFORMATION IS THAT NET RETURN (PROFIT) ON SALES OF PINE LUMBER CURRENTLY ABOUT 3 PERCENT TO 5 PERCENT. THEREFORE GOH 20 PERCENT WITHHOLDING AFFECTING BOTH NET RETURN AND ADDITIONAL WORKING CAPITAL, PLACING EXPORTERS IN BIND.

3. SECOND FINANCIAL PROBLEM DERIVES FROM FACT EXPORTERS TRADITIONALLY PAID SAWMILLS ESSENTIALLY ON DELIVERY OF ROUGH WOOD AND ALSO PROVIDED CAPITAL FINANCING TO SAWMILLS* THIS SYSTEM WAS FINANCED BY U.S. BANKS WHO PROVIDED LINE OF CREDIT BASED UPON INVENTORY HELD BY EXPORTER IN HIS YARD. U.S. BANKS NOW CONSIDER INVENTORY NO LONGER BELONGS TO EXPORTER (SINCE TITLE IS LEGALLY HELD BY GOH) AND REFUSE TO PROVIDE LINE OF CREDIT. EXPORT COMPANY NOW UNWILLING TO MAKE PAYMENT TO SAWMILL UNTIL LUMBER LOADED ON VESSEL AT WHICH TIME U.S. BANKS WILLING TO PROVIDE LINE OF CREDIT TO BUYER OF LUMBER WITH GUARANTEE OF EXPORTER. RESULT OF THIS IS THAT SAWMILLS SERVING EXPORTERS ARE WITHOUT PREVIOUS FINANCING. SEVERAL ARE BEHIND IN SALARY PAYMENTS AND LACK WORKING CAPITAL TO PURCHASE LOGS AND SERVICES. TOTAL AMOUNT OF FINANCING NECESSARY TO CLOSE THIS GAP SEEMS TO BE ABOUT \$2.5 MILLION WITH A TURN-OVER EACH 6 WEEKS. SAWMILLS MISSING PAYROLLS HAVE OBVIOUS LABOR PROBLEM.

4. EXPORTER LABOR PROBLEMS ARE INTENSIFIED BY UNCERTAINTY THAT EXISTING EXPORTERS WILL CONTINUE IN BUSINESS. THERE IS REPORTEDLY AGITATION BY RADICAL ELEMENTS. DIFFICULTY IS THAT NORMAL EFFORT BY LABOR TO OBTAIN MORE IS MET BY EXPORTERS' UNCERTAINTY ABOUT FINANCES AND FUTURE WHICH
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MAKES THEM UNWILLING TO DEAL WITH ECONOMIC OR COST RELATED NEGOTIATIONS. *SOME ELEMENTS OF LABOR CONSIDER THAT DECREE 103 MEANS LABOR WILL TAKE OVER YEARS. THEREFORE, LACK OF ROUGH LUMBER ENTERING FROM SAWMILLS AND CONTINUED EXPORTS REDUCES INVENTORY WHICH IS INTERPRETED AS REDUCTION OF THEIR PATRIMONY. CIRCUMSTANCES ARE IDEAL FOR FLARE UP LEADING TO VIOLENCE. (MACHETES AND HAND GUNS ARE AS COMMON AS BANANAS IN SAN PEDRO.) A CLASH ALMOST

OCCURRED WHEN ONE COMPANY RECENTLY SOLD TWO EXCESS FORK-LIFT TRUCKS OUT OF USE FOR A YEAR.

5. ECOM OFFICER COUNSELLED COMPANIES INTERVIEWED TO PRESENT REYES EXPLANATION OF ABOVE AND OTHER PROBLEMS OF OPERATIONS NEEDING IMMEDIATE RESOLUTION.

REYES SOLICITED ECOM OFFICER VIEWS OF U.S. EXPORT COMPANY PROBLEMS. THREE MENTIONED ABOVE WILL BE DISCUSSED LATE FEB. 12 OR 13.

7. COMMENT: SOME U.S. COMPANIES ADAPTING TO NEW RULES BUT NECESSARILY WITH SHORT-TERM FIREFIGHTING TACTICS THAT ABSORB AVAILABLE MANAGEMENT TIME. THEY HAVE DIFFICULTY DEALING WITH PROBLEMS OF ONE MONTH AHEAD. LONGER TERM STRATEGY OF LUMBER EXPORTERS (DAVIS, ROBINSON, SICRE) NOT AT *LL CLEAR. THIS CONTRASTS WITH FINISHED PRODUCT PEOPLE SUCH AS INTERNATIONAL WOOD PRODUCTS AND DANIELS WHO ARE ADAPTING WELL. MOST U.S. PEOPLE HAVE HIGH PERSONAL OPINION OF REYES AND DEEP DOUBTS ABOUT THE LAW HE IS ADMINISTERING.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LUMBER, INDUSTRY, DEBTS, TAXES, EXPORTERS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEGUCI00609
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740237/aaaabjfk.tel
Line Count: 137
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: TEGUCIGALPA 423
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 10 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 SEP 2002 by kelleyw0>; APPROVED <09 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LUMBER DEVELOPMENTS
TAGS: EIND, EAGR, HO, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005